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1910

ANNUAL REPORT

OF

THE DIRECTORS

OF

ERICAN TELEPHONE & TELEGRAPH COMPANY

TO THE STOCKHOLDERS

FOR THE

YEAR ENDING DECEMBER 31, 1910

NEW YORK, 1911.

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American Telephone & Telegraph Company

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REPORT OF THE DIRECTORS
OF
AMERICAN TELEPHONE AND TELEGRAPH COMPANY.

NEW YORK, March 13, 1911.

TO THE STOCKHOLDERS:

Herewith is respectfully submitted a general statement covering the business of the Bell system as a whole, followed by the report of the American Telephone and Telegraph Company, for the year 1910.

BELL TELEPHONE SYSTEM IN UNITED STATES.

SUBSCRIBER STATIONS.

At the end of the year the number of stations which constituted our system in the United States was 5,882,719, an increase of 740,027. 1,852,051 of these were operated by local, co-operative and rural independent companies or associations having sub-license or connection contracts, so-called connecting companies.

WIRE MILEAGE.

The total mileage of wire in use for exchange and toll service was 11,642,212 miles, of which 1,162,186 were added during the year. These figures do not include the mileage of wire operated by connecting companies.

TRAFFIC.

Including the traffic over the long-distance lines, but not including connecting companies, the daily average of toll connections was about 602,500, and of exchange connections about 21,681,500, as against corresponding figures in 1909 of 517,000 and 19,925,000; the total daily average for 1910 reaching 22,284,000, or at the rate of about 7,175,448,000 per year.

PLANT ADDITIONS.

The amount added to plant and real estate by all the companies, excluding connecting companies, constituting our system in the United States during the year 1910 was:—

Real Estate	$2,518,133
Equipment	19,628,357
Exchange Lines	13,409,546
Toll Lines	14,959,048
Construction Work in Process	3,067,734
	$53,582,818

PLANT ADDITIONS OF PREVIOUS YEARS.

The amount added in 1900 was $31,619,100; in 1901, $31,005,400; in 1902, $37,336,500; in 1903, $35,368,700; in 1904, $33,436,700; in 1905, $50,780,900; in 1906, $79,366,900; in 1907, $52,921,400; in 1908, $26,637,200; and in 1909, $28,700,100, making the total expenditure for additions to plant during the eleven years $460,755,700.

MAINTENANCE AND RECONSTRUCTION.

During the year $52,028,000 was applied out of revenue to maintenance and reconstruction purposes.

The total provision for maintenance and reconstruction charged against revenue for the last eight years was over $283,500,000.

CONSTRUCTION FOR THE CURRENT YEAR.

Estimates of all the associated operating companies and of the American Telephone and Telegraph Company for all new construction requirements in 1911 have been prepared. It is estimated that about $60,000,000 will be required for current additions to plant in 1911, of which amount some $30,000,000 will be provided by the existing and current resources of the companies. All who are responsible for these expenditures are working in complete understanding of these estimates and the limits set on their expenditures.

DEPRECIATION.

The question of depreciation has been considered very critically and analytically during the past year, by commissions and other bodies, in connection with studies on the rate question. While a depreciation reserve was generally favored, there seemed to be a disposition to apply experience and theories, gleaned from other lines of business, to the telephone business.

The telephone business is unique in that it supplies its own terminals, which are vast in number, are temporary in character, and call for large investment, unique in that a very considerable part of its plant is of a rapidly deteriorating character. Underground conduits and cables and aerial cables are fast changing this, but in the outlying rural and semi-urban districts and for long-distance lines construction will always have to be overhead on poles. There is nothing analogous to it in industrial or public utility service except the telegraph.

The entire disregard or underestimating of depreciation and future replacement, is the cause of nearly all the financial disasters that have occurred in the telephone business, and has been the common failing of newcomers in the telephone field from the beginning to the present time.

Current repairs on new plant, even of the old time temporary character, were small; no surplus or reserve was provided; profits were apparently large, as were dividends.

A false atmosphere of prosperity surrounded the business which was not dispelled until replacements of plant through decay or obsolescence became imperative; until the overhead gave way to the underground, until the individual board gave way to the multiple central office system, until central office energy supplanted the magneto system, until exacting construction requirements of long-distance speaking began, until expansion of business and extension into new fields, some unremunerative, were obligatory; until a condition existed where, to correct mistakes of the past, capital had to be expended without producing any corresponding increase in the revenue.

The inevitable was in some cases postponed by excessive charges to construction account, but came in time, as it is bound to come under such conditions. The apparent profits and dividends had been at the cost of the capital and, at the time of the greatest necessity, resources were at the lowest ebb.

Ignorantly or wilfully, every cause but the right cause was blamed, and although the management had been in the hands of the outside interests, the Bell parent company was given the responsibility, had to carry the burden, and assume the work of reconstruction and rehabilitation.

An illustration may make the necessity of depreciation reserve even clearer. If a carter or local expressman or hackman owning his own carriages, horses or motor cars, should consider as profit all revenue over and above his current expenses and costs of current repairs, and should spend it, saving nothing with which to replace his plant when worn out or damaged beyond repair, he would be called thriftless and improvident. He had enjoyed his capital, and had nothing upon which to raise more.

The present policy of the Bell System is to provide against every probable contingency and to base the amount and extent of such provision on past experience—not on future expectations. It is conjectured that the future will show a decrease in the depreciation or reconstruction due to decay, wear and tear, and obsolescence. Changes—improvements—are going on as rapidly as in the past, but the general character of plant and methods is assuming more permanency. The improvements are being evolved from, and are being grafted on to, the old system and methods. The disturbing and sometimes seemingly destructive conditions following the rapid development of high pressure power and transmission have been to a great measure overcome.

All this has been made possible through the unremitting study and research of the staff of the Engineering and Experimental Departments of the Company, who by close attention, observation and study, anticipate and provide for all such contingencies and conditions as can possibly be anticipated or provided for in advance.

Under these conditions there is small probability that any such causes as those which forced the wholesale reconstruction or rearrangement of plant in the past will again occur; it is, however, for the benefit of the public and of the corporation to have an ample reserve for any contingency which may happen.

Local telephone service up to the present requirements cannot be furnished by isolated or individual companies, and facilities for general service must be co-extensive with speaking limits, so that it is imperative for any system which pretends to be comprehensive to meet, and meet promptly, all demands for service. Its public usefulness as well as corporate existence and prosperity make it imperative to meet the continuing demand for extension which sometimes seems almost overwhelming in its magnitude.

Not only must this increase be met, but to be met economically or efficiently, it must be anticipated; subways cannot be built conduit by conduit, or filled wire by wire—cost would be prohibitive and service impossible. Central office buildings must be located and erected and connected by subway with the general system before switchboards or wires or equipment can be introduced. When built they must be built for the future. To build for present requirements only, and enlarge as demand comes, is impossible in much of this work; and, where possible, impracticable from service standpoint, or prohibitive from that of cost. Advance construction of this kind of the Bell Telephone System, including construction in process, December 31, 1910, was estimated at $180,000,000. Had no plant been built in advance of needs except that which was unavoidable the expenditure would have been reduced by $112,000,000, but the cost of the plant not built at first, if provided later and only as required, would have been $250,000,000 instead of $112,000,000. In other words, not to provide for advance construction doubles the cost of the plant.

The capital for this advance construction must be provided by and at the cost of the present, as was the advance construction of the past provided by and at the cost of the past. To the extent that advance construction reduces the cost of necessary plant and anticipates reconstruction and replacement, to that extent the capital charge to be borne by present and future is reduced and to that extent it immediately puts the depreciation reserve to its intended use. The criticism that any excess of reserve is at the cost of the present for the benefit of the future is true, but only to the extent that it may be found eventually to be in excess of actual requirements. In any case it would be no more than might rightly be considered an insurance against obsolescence which cannot be foreseen.

FIGURES FOR THE YEAR.

The following tables show the business for the year of the Bell Telephone System including the American Telephone and Telegraph Company and its associated holding and operating companies in the United States, but not including connected independent or sub-licensee companies, nor the Western Electric Company and Western Union Telegraph Company except as investments in and dividends from those companies are included respectively in assets and revenue. All inter-company duplications are eliminated in making up these tables so that the figures represent the business of the system as a whole in its relations to the public.

The gross revenue collected from the public in 1910 for telephone service by the Bell System—not including the connected independent companies—was $165,-600,000; an increase of nearly $16,000,000 over last year. Of this, operation consumed $54,000,000; taxes, $8,000,000; current maintenance, $25,700,000; and provision for depreciation, $26,200,000.

The surplus available for charges, etc., was $51,000,-000, of which $11,550,000 was paid in interest and $25,-000,000 was paid in dividends to the public.

The total capitalization, including inter-company items and duplications, of the companies of the Bell System is $1,114,310,979. Of this $502,306,910 is owned and in the treasury of the companies of the Bell System. The capital stock, bonds and notes payable outstanding in the hands of the public at the close of the year were $612,000,000. If to this be added the current accounts payable $21,700,000, the total obligations of every kind were $633,700,000, as against which there were liquid assets, cash and current accounts receivable, of $53,600,000, leaving $580,100,000 as the net permanent capital obligations of the whole system outstanding in the hands of the public.

Against these obligations, the companies had property $696,700,000—an excess of $116,600,000, or 20 per cent.

There is a large additional surplus, which is legitimate and proper and which could be properly added to the book Surplus, representing as it does the value of intangible property, such as franchises, contracts, patents, rights of way, both public and private, which are not carried at any valuation in the book accounts.

In every case where the public authorities have appraised the plant of the companies, the valuation has been far in excess of the book valuation. It is within the bounds of conservatism to say that the obligations of all the companies outstanding in the hands of the public are represented by 150 per cent. of property at a fair replacement valuation of the plants and assets, not including public franchises.

In spite of these facts and figures shown from year to year in our annual reports; in spite of reports to the contrary of every public or semi-public body which has examined and reported on the value of the property of the Bell System; in total disregard of information at the disposition of every one, there are many who for some purpose or other—sometimes to induce credulous investors to take some worthless securities in hope of extraordinary and impossible returns; sometimes for political purposes; sometimes for sensation or notoriety—continue to spread the reports of fabulous over-capitalization of the Bell System as a whole and of its component parts, and gross and extortionate charges for service.

Particular attention, therefore, is invited to the tables following, and also to the one showing averages of operating units of associated companies, on page 13.

Bell Telephone System in United States.

COMPARISON OF EARNINGS AND EXPENSES, 1909 AND 1910.

(ALL DUPLICATIONS, INCLUDING INTEREST, DIVIDENDS AND OTHER PAYMENTS TO AMERICAN TELEPHONE AND TELEGRAPH COMPANY BY ASSOCIATED HOLDING AND OPERATING COMPANIES, EXCLUDED.)

	1909.	1910.	Increase.
Gross Earnings	$149,914,708	$165,612,881	$15,698,173
Expenses—Operation	$49,731,941	$54,235,449	$4,503,508
Current Maintenance	23,723,681	25,763,082	2,039,401
Depreciation	21,115,272	26,264,927	5,149,655
Taxes	6,976,306	8,355,015	1,378,709
Total Expenses	$101,547,200	$114,618,473	$13,071,273
Net Earnings	$48,367,508	$50,994,408	$2,626,900
Deduct Interest	10,221,383	11,556,864	1,335,481
Balance Net Profits.........	$38,146,125	$39,437,544	$1,291,419
Deduct Dividends Paid	23,910,603	25,160,786	1,250,183
Surplus Earnings	$14,235,522	$14,276,758	$41,236

COMBINED BALANCE SHEET, 1909 AND 1910.

(DUPLICATIONS EXCLUDED)

ASSETS:	Dec. 31, 1909.	Dec. 31, 1910.	Increase.
Contracts and Licenses...	$7,212,781	$2,943,381	$4,269,400*
Telephone Plant	557,417,146	610,999,964	53,582,818
Supplies, Tools, etc......	17,048,196	20,987,551	3,939,355
Receivables	49,744,919	26,077,802	23,667,117*
Cash	32,055,866	27,548,933	4,506,933*
Stocks and Bonds	38,166,284	64,766,089	26,599,805
Total	$701,645,192	$753,323,720	$51,678,528
LIABILITIES:			
Capital Stock	$352,904,063	$344,645,430	$8,258,633*
Funded Debts	187,685,339	224,791,696	37,106,357
Bills Payable	40,721,625	42,566,943	1,845,318
Accounts Payable	24,633,780	21,721,125	2,912,655*
Total Outstanding obligations	$605,944,807	$633,725,194	$27,780,387
Surplus and Reserves....	95,700,385	119,598,526	23,898,141
Total	$701,645,192	$753,323,720	$51,678,528

*Decrease.

AVERAGE OPERATING UNITS OF ASSOCIATED OPERATING COMPANIES.

(*See table on next page.*)

The table on the following page shows average operating revenue and expenses per station, operating ratios, unit plant costs, etc., of the associated operating companies (not including the American Telephone and Telegraph Company's long-distance lines), for the years 1895, 1900, 1905 and 1910.

It will be noted that there has been a steady decrease both in expenses and revenue per subscriber's station, so that now the average subscriber pays for a higher grade, more comprehensive service, less than half what he paid fifteen years ago for the much less useful service that was then possible.

This reduction in cost of service has made it possible for every one who needs a telephone to have one and to get the great advantage of being within reach of everybody by telephone.

The greatly decreased plant investment per station to which attention was called in the previous annual report has been still further reduced during the year to $142, notwithstanding the extensive additions to toll lines shown on page 4.

There is a steady increase in the proportion of wires underground, as shown on page 63, which indicates a greater permanence of plant and decreases the maintenance costs. This low cost of plant and this decreasing maintenance cost are only made possible by the central supervision of engineering and manufacturing of the Bell System and the advance construction referred to at length under the head of Depreciation.

The percentage of net profits to capital stock, although not so good as in the earlier years of the business, shows for 1910 an improvement over recent years.

AVERAGE OPERATING UNITS OF ASSOCIATED OPERATING COMPANIES, 1895 TO 1910.

(THIS TABLE COVERS THE COMPANIES OWNING ALL THE EXCHANGES AND TOLL LINES OF THE BELL TELEPHONE SYSTEM EXCEPT THE LONG-DISTANCE LINES OF AMERICAN TELEPHONE & TELEGRAPH CO.)

Average per Exchange Station.	1895.	1900.	1905.	1910.
EARNINGS:				
Exchange Service	$69.75	$44.68	$33.31	$31.28
Toll Service	11.35	12.60	9.95	9.47
Total	$81.10	$57.28	$43.26	$40.75
EXPENSES:				
Operation	$29.15	$21.63	$16.96	$15.14
Taxes	2.23	2.37	1.49	2.00
Total	$31.38	$24.00	$18.45	$17.14
Balance	$49.72	$33.28	$24.81	$23.61
Maintenance and Depreciation	26.20	17.68	13.91	13.46
Net Earnings	$23.52	$15.60	$10.90	$10.15
Per Cent. Operation Expense to Tel. Earnings	35.9	37.8	39.2	37.2
Per Cent. Telephone Expense to Tel. Earnings	71.0	72.8	74.8	75.1
Per Cent. Maintenance and Depreciation to Average Plant, Supplies, etc.	9.1	8.4	8.9	9.5
Per Cent. Increase Exchange Stations*	15.7	26.5	24.5	11.8
Per Cent. Increase Miles Exchange Wire*	15.9	33.2	27.2	12.0
Per cent. Increase Miles Toll Wire*.	21.3	25.2	12.4	11.5
Average Plant Cost per Exchange Station (including Exchange and Toll Construction)	$260	$199	$145	$142
Average Cost per Mile of Pole Line (Toll) (Including Wire)	$219	$348	$438	$688
Average Cost per Mile of Wire (Toll) (Including Poles)	$81	$71	$62	$66
Per Cent. Gross Telephone Earnings to Average Plant	33.4	31.7	31.7	29.3
Per Cent. Net Profits to Average Capital Stock	10.11	9.44	8.34	8.48
Per cent. Dividends to Average Capital Stock	5.07	6.19	5.75	6.31

***Increase during year shown, over previous year.**

WESTERN ELECTRIC COMPANY.

The Western Electric Company occupies a unique position in the manufacturing business. It is in fact the manufacturing department of the Bell System.

To develop efficiency in service it was necessary to control the evolution of apparatus as well as of methods of operation. To control the quality and style of apparatus, to control the improvements which suggested themselves in the course of, and were the outcome of the experimental work and the development and improvement studies and experiments, it was necessary for the Bell System to control the manufacture of equipment and apparatus.

The present Western Electric Company was the outgrowth of this necessity.

This relation created the business of the Western Electric Company.

This relation of the Western Electric Company with the Bell System not only eliminated the expense which such companies must incur in the establishment of their business, but also largely reduced the operating or continuing expenses. Its business was either for the Bell Companies, or came to it because of its relation to the Bell Companies. Its manufactured products were made upon advance orders or to fill regular and definite continuing demands. A relatively small merchandise stock had to be carried.

There was no selling expense which, in the ordinary manufacturing business, absorbs such a large percentage of the manufacturing profits. There were no bad debts. The capital of the company was small and the floating debt large—at times much larger than the capital.

The growth had been so rapid that there had been no time to adjust the business to the changing conditions. It became apparent that some of these conditions must be changed for the permanent good of the company.

Before instituting any changes an offer was made to the outside shareholders of the Western Electric Company for an exchange or sale of their stock to the American Telephone and Telegraph Company. The offer was considered a liberal one and was accepted by a very large majority of the smaller holders and by a majority of the total shareholdings not held by the American Company.

A definite program of readjustment to new conditions was adopted and has been steadily pushed forward.

Outside lines of manufacture which were not only unprofitable but were absorbing a very large proportion of the capital of the company have been abandoned and the company's energy and efforts concentrated on the manufacture and sale of telephonic apparatus and auxiliary supplies.

The Hawthorne works have been enlarged and the Chicago City Clinton Street and Polk Street properties have been sold at a slight advance over their book values. The company's debt has been funded and it has ample working capital.

The prices charged to the Bell System are lower than the prices charged to other telephone customers. In the year 1910 the rate of gross profit on sales to the Bell System was 7.5% less than on sales to such other customers. This difference was offset by the lower expense in selling to the Bell Companies.

The relation between the Bell System and the Western Electric Company has the advantage of a ready made business, with none of the ordinary drawbacks and expenses and risks that other manufacturing companies have. Because of that relation, however, all investigations made as to the cost and expenses of the telephone business by public bodies include an investigation to ascertain whether or not the Bell System is getting, indirectly, abnormal profits through its manufacturing department by making excessive charges for apparatus and supplies. While all such investigations have, so far, ended satisfactorily, they bring into the discussion the profits of the company, its relations to public utilities, its profits, and the proportion of these profits which should be divided among the shareholders.

Everything indicates that the company can make satisfactory prices to the telephone companies for its products and maintain a 10 per cent. dividend. This rate has been started and it is not believed that existing conditions or a conservative policy would justify more.

REPORT OF THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY.

The improvement which has marked previous years still continues. The net revenue for the year was $31,933,214.49, out of which were paid interest, $5,077,321.33, and dividends, $20,776,822.12. The balance, $6,079,071.04, shows an increase, notwithstanding the large increase in dividends due to the exchange of convertible bonds for shares.

CONVERTIBLE BONDS.

At the close of business, December 31, 1910, $111,059,000 of the $150,000,000 convertible bonds sold had been handed in for conversion, leaving outstanding at that date $38,941,000.

SHARE CAPITAL.

Due to the conversion of the bonds, there has been an increase of $6,860,300 in the outstanding share capital. This increase has been well distributed. The number of shareholders, 40,381, on December 31, 1910, shows an increase of 4,558 during the year. The distribution is general, there being 40,087 shareholders who hold less than 1,000 shares each, 266 who hold from 1,000 to 5,000 shares each and 28 who each hold 5,000 shares or more. The total holdings in blocks of 5,000 or more are less than 10 per cent. of the stock outstanding. A majority of the company's stockholders are women. Less than 8 per cent. of the stock was at December 31st in the names of brokers.

ISSUES OF CAPITAL STOCK AND BONDS.

There has been no issue of share capital during the year except in exchange for convertible bonds. The amount of these bonds still outstanding at the time of this report is about $30,000,000.

Some of the Collateral 4s have been issued in the course of the year in connection with the program for rearranging the territory, referred to last year, and other similar purposes.

It will be necessary, towards the close of the year, to do some financing, and should conditions remain much as they now are this will probably be done by an issue of share capital to the stockholders. The time and amount of the issue will be determined later in order that any change in conditions may be taken advantage of.

Last year we stated that the premiums received over the par value of capital issues were over $14,000,000. The conversion of bonds into stock during the year has increased this premium account to nearly $17,000,000.

GENERAL.

The business of the American Telephone and Telegraph Company is largely, but by no means entirely that of a holding company. It is an operating company in that it exercises centralized administrative functions over the associated companies and owns and directly operates the long-distance lines, binding this company into one system.

It is a developing and manufacturing company by reason of its control over the manufacturing of the Western Electric Company through the Experimental and Engineering Departments and its contract relations with and stock ownership in that company.

To get a proper comprehension of the business of the company as a whole, the combined balance sheet and earnings statement on page 11 must be considered rather than the balance sheet and earnings statement of the American Telephone and Telegraph Company alone.

The interest of the American Telephone and Telegraph Company in its associated operating companies is over 80 per cent., in addition to which it has its own earnings. The American Telephone and Telegraph Company's share of the surplus earnings of the Bell System is approximately 90 per cent., so that the showing of real interest to the security holders of American Telephone and Telegraph Company lies in the figures of the Bell System as a whole.

The combined statements of the Bell System show that during the year the property of the whole system increased $84,000,000. This includes plant, real estate, supplies, tools, stocks and bonds.

The cash and other liquid assets were reduced by $28,000,000. The intangible assets, such as contracts, patents, franchises, etc., were reduced by $4,270,000, leaving less than $3,000,000 on the books of all the companies against these items.

The net increase in assets, about $52,000,000, was provided by an increase in outstanding obligations of less than $28,000,000.

LEGAL.

The Legal Department reports that throughout the country the relations of this company and its associated companies with the Public Service Commissions of the several states have, on the whole, been of a very satisfactory character. The Commissions have recognized the fundamental correctness of our methods of operating, the soundness of our principles of accounting and the fairness of our dealings with the public.

There has, consequently, been but little difficulty in working harmoniously with these Commissions in solving the problems which, in a growing business, constantly demand attention.

In Oklahoma, where our associated company felt compelled to disagree with the State Commission, the Supreme Court of the State in the so-called Enid case has fully sustained our claims. That Court in its opinion has made a very valuable contribution to the law, recognizing, as it does, that in the telephone business large expenditures must be made in the establishment and development of an efficient telephone service which do not appear in the plant, but which contribute to the value of the business when established. This "going value" must always be added to the value of the physical plant in determining the investment upon which the telephone company is entitled to an income. The Court also recognized the necessity in the telephone business of making a liberal provision for depreciation, not only to provide for the decay and destruction of plant, but also to make the changes required to meet rapidly growing demands and to furnish the public with the improved facilities which the great development of the art has made necessary.

Our associated companies have been quick to respond to the public needs with these improved facilities and advanced methods of operating. In consequence they have had very little litigation with their subscribers and have been uniformly successful in such as has arisen.

In the Western Union case the United States Circuit Court has affirmed the report of the Master and the case will be appealed. Nothing has developed in this case which changes our view that the earlier decisions in this case were correct and that we have fully accounted for all that was due the plaintiffs under the contract of November 10, 1879.

PENSIONS AND SAVINGS.

During the year a great deal of attention has been given to some scheme for Pensions and Savings which would be of the greatest possible benefit and assistance to the employees, and if possible a substantial improvement on any scheme now in force.

The problem is an intricate and complicated one and the solution not easy.

At a conference of all the associated companies it was agreed that any plan adopted by the American Telephone and Telegraph Company would also be adopted by them, making it comprehensive and covering the Bell System as a whole, so that all changes of employees between companies would not affect their Pensions or Savings benefits.

In the meantime all cases which would come under Pensions or Savings plans will be acted upon individually by the company, so that in effect so far as the employees are concerned the delay does not postpone any benefit to them.

INDEPENDENT AND OPPOSITION COMPANIES.

Our policy in respect to the opposition and independent telephone systems has been consistently followed through the year. Wherever it could be legally done, and done with the acquiescence of the public, opposition companies have been acquired and merged into the Bell System.

Independent companies have been added to the System through sub-license or connecting contracts.

There is no question but that the public are tired of dual telephone exchange systems, and that so fast as confidence in protection against the real or imaginary evils of monopoly increases, opposition against mergers will decrease.

This condition can only be brought about by putting before the public the fullest and most detailed information as to the company, its policy and purposes.

PUBLIC RELATIONS.

In all times, in all lands, public opinion has had control at the last word—public opinion is but the concert of individual opinion, and is as much subject to change or to education.

It is based on information and belief. If it is wrong it is wrong because of wrong information, and consequent erroneous belief.

It is not only the right but the obligation of all individuals, or aggregations of individuals, who come before the public, to see that the public have full and correct information.

The Bell System gained 740,027 subscribers last year. Of the total number of subscribers over 1,000,000 were new during the year.

The American Telephone and Telegraph Company gained 4,558 shareholders last year. Of the total number of shareholders many more were new last year.

The excuse for setting forth at great length the policy, facts, beliefs and desires of the Bell System and those administering it, even to the extent of repeating much that has already been said and explaining some things familiar to many, is to inform the new public, the new subscribers, and the new shareholders.

Every fact that is stated is correct.

Every argument or reason is believed to be well founded and based on facts and is intended to be impartial.

The position of the Bell System is well known.

It is believed that the telephone system should be universal, interdependent and intercommunicating, affording opportunity for any subscriber of any exchange to communicate with any other subscriber of any other exchange within the limits of speaking distance, giving to every subscriber every possible additional facility for *annihilating time or distance by use of electrical transmission of intelligence or personal communication.* It is believed that some sort of a connection with the telephone system should be within reach of all. It is believed further, that this idea of universality can be broadened and applied to a *universal wire system* for the *electrical transmission of intelligence* (*written or personal communication*), from every one in every place to every one in every other place, a system as universal and as extensive as the highway system of the country which extends from every man's door to every other man's door.

It is not believed that this can be accomplished by separately controlled or distinct systems nor that there can be competition in the accepted sense of competition.

It is believed that all this can be accomplished to the reasonable satisfaction of the public with its acquiescence, under such control and regulation as will afford the public much better service at less cost than any competition or government-owned monopoly could permanently afford and at the same time be self-sustaining.

The Bell System as at present constituted was evolved first through the local exchange.

In the beginning of the business it was impossible to get the necessary capital for development in any large amount. In the place of large capital, small capital and the optimism of individuals had to be utilized. Small capital, large hopes and individual effort brought about a development by limiting the size of the exchange territory given to each individual to his possibilities. In this way the country and smaller cities were largely developed before much was done in the larger cities. The capital to develop New York was estimated at less than $100,000, yet it was a long time before even that could be raised. Even if it had been possible to raise capital to exploit the whole country through one company, it would have been impossible to use it properly. The business was new. Those who constructed and operated it had to be educated. The policy of small units and individual effort, with concentration, application and resourcefulness brought a more rapid development and education than could have been had in any other way.

In this formative period, when the business was new, before distant speaking possibilities were shown, all communication was local. No two exchanges were either equipped or operated on the same lines or under the same methods, nor did they need to be; service, judged by present standards, was poor, but satisfied the local use; better service was not known. Later development of the toll line, of lines connecting exchanges, and of long-distance service made the deficiencies of the service glaring and the necessity of improvement imperative.

It will be remembered by many when the long-distance service was first introduced special connections had to be built for the users; now every telephone station or line can be equally well used for long-distance speaking.

With the extension of the speaking limits of the telephone over connecting lines came also the necessity for the extension of the territorial limits of the exchange systems, the necessity of standardization, uniformity of apparatus and operating methods, and an effective common control over all. The necessity for system was the beginning of the Bell System. The combination of the separate exchanges and lines into larger aggregations or organizations followed. It was necessary to have more effective organization with more effective administration and management.

and with resources sufficient to make the changes which experiment and experience had found necessary.

It is impossible to define the territorial limitations of a telephone system because from every exchange center communication is wanted up to the talking limits in every direction.

This process of combination will continue until all telephone exchanges and lines will be merged either into one company owning and operating the whole system, or until a number of companies with territories determined by political, business or geographical conditions, each performing all functions pertaining to local management and operation, will be closely associated under the control of one central organization exercising all the functions of centralized general administration. But whatever may be the form of the operating organization, there is bound to be for legal purposes and the holding of franchises, some sort of subordinate state organization which will bring the business and property in each locality under the jurisdiction of the state in which it is situated and operated.

The American Telephone and Telegraph Company, which is the owner of all or part of each company forming the Bell System, is not simply a holding company. It is not a combination that has eliminated competition between the companies controlled by it. There can be no rivalry or competition between local exchanges in adjacent territory. Those desiring the service of exchanges in adjacent territory in addition to their own can get it much better and cheaper through their local exchange. To give direct individual wires from one exchange territory into another would be impractical from the multiplication of lines and prohibitive on account of cost. The American Telephone and Telegraph Company is a centralized general administration for all the companies. It does the financing for the extension of the business. It furnishes the engineering, operating and other experts. It maintains a productive and protective organization so far as patents are concerned. It defends all the companies against all infringements. It undertakes to bring about improvements by working out the ideas and suggestions of others, both in and out of the business. Its agents keep each company fully informed of all that is going on in the field. It avoids all duplication of efforts, of experiments, of trial of new methods, apparatus, etc. It looks after the public relations of the companies. In other words, it performs all that service which is common to all, leaving to the local companies the local management. The organization is not unlike that of the United States, each local company occupying its own territory and performing all local functions, the American Telephone and Telegraph Company binding them all together with its long-distance lines and looking after all the relations between the local companies and between local companies and other companies. To have developed the telephone industry to its present state of efficiency would have been beyond the ability of any one of the local companies.

All independent systems which have been started have more or less followed the same lines, but within restricted areas, whether built by one company or interest, or by several. First, the local exchange, then the toll line to outlying points, and then the long-distance line connecting with other independent exchanges, tieing them together to form a system affording facilities for communication between the subscribers of one exchange and the subscribers of the other, but limited in scope, and without the community of interest necessary to a common system.

In other words we have the Bell System on the one side, developed on the lines of a universal, intercommunicating and interdependent service. We have the opposition on the other side, segregated exchanges or limited systems without universality, incomplete and inefficient, neither interdependent nor intercommunicating, except to a limited extent.

Corporate Organization and Combination.

There is nothing of greater common interest, nothing which is exciting more comment and discussion at the present moment, than the questions of state control of corporate organizations and of combinations, especially of those controlling public utilities.

Corporate organization and combination are the necessary and logical solution of the problem of caring for the wonderful development which has been going on all over the world, and particularly in this country, in the recent past.

Combination only can cope with that industrial development of the present time which is far beyond the scope of individual effort or capital. In those good old times, one man, with his own capital, could carry on even the largest operations. The margin of profits due to low wages and large selling prices enabled the owners of such individual establishments to live and enjoy the best to be had in those times, and amass fortunes—fortunes relatively as large as any of the present—from an amount of gross business, the profits from which today would not be sufficient to pay the wages of a shop superintendent.

The development of the arts, the necessity of extensive laboratories and experimental departments, with technical staffs competent to keep abreast of modern progress and find out how to *utilize all of everything,* the large gross production at small margin of profit, the large capital requirements necessary to conduct business on these lines; all these place modern industrial enterprises either beyond the financial ability of any one individual, or far beyond the amount that any one individual wishes to have in any one venture.

Without attempting to discuss the history or evolution of "Company," "Corporation," or "Monopoly," and similar organizations or combinations of trade, it can be said that the first and oldest step towards corporate organization was partnership. Corporate combination is but a partnership wherein the partners are represented by shares held in various amounts by the various investors.

These corporate organizations and combinations have become a permanent part of our business machinery; the public would not, if it could, abolish them.

Who would ever consent, or would the requirements of business allow, that the railroads between the great sections of our country revert to the independent lines that once existed, with all the consequential delays, inconveniences and disadvantages to traffic and travel? Who would be content if the telegraph business should be carried on by the transfer of messages from one to another of the numerous companies, formerly independent, but now combined and giving direct transit over the whole country?

That there has been in large measure reason or cause for the existing unfavorable public opinion as to corporations, trusts and combinations, is beyond question, but it does not follow that there is reason or cause for the wholesale denunciation and condemnation of all corporations, trusts and combinations. Nor does it follow that all that is bad is centered in or confined to those prominent in the public eye.

Many of the practices most severely condemned are but the amplification or continuance of practices or customs common in the current affairs of business, practices or customs which were not wrong in themselves, but wrong in the abuse of them.

Public utility corporations and other combinations have too frequently assumed that new laws and regulations were disastrous and ruinous without first giving them a fair trial, and legislators too often have displayed an ignorance or disregard of existing laws, spreading the idea that new legislation was a cure-all for any undesirable condition, while it was often only a political play, and the enforcement of the existing laws was utterly neglected. The results have been bad. While business will adjust itself to any condition if given time and opportunity, sudden change of conditions will result in disaster to some interest, but not as a rule to those at which the change was aimed.

There is too little consideration given to the fact, based on all experience, that no one interest can permanently prosper unless all other interests are in a prosperous condition, and to the fact that any sudden change in existing conditions will always be taken advantage of by some one interest to the detriment of other interests in general.

The proper use of corporate organization or combination under proper regulation or control cannot be objected to.

What is and should be condemned, prevented and punished, is the abuse made of corporate machinery to the detriment of public welfare and such abuse as has been and is being practised so extensively for purely speculative and oftentimes swindling enterprises.

It is largely this abuse by professional speculative promoters and swindling security vendors, mostly on a comparatively small scale, not in any way associated or connected with the general business organizations or systems, that has been the cause of most of the popular odium surrounding this necessary machinery of business. It does not seem possible that the only way of reaching such offenders is through penalties for "misuse of the mails," but however or by whomever the remedy is applied, he who does it should receive the heartiest thanks and appreciation of the community.

The large corporate combinations which often in popular opinion are supposed to be owned or wholly controlled by some one man or some few men, are, in fact, made up of thousands and tens of thousands of silent partners, the shareholders, who are the real owners. The existence of these real owners, these shareholders, is often obscured in the shadow of some one or more individuals who dominate these companies, not by large ownership, as popularly believed, but by administrative and operating aggressiveness and successful management. The shareholding owners are in the aggregate very numerous and, in any other country than America, would be frequently in evidence and heard from, would always take an active participation in all meetings, annual or special, and would in that way protect themselves and their holdings by associating the corporation or combination in the minds of the public with the particular and separate individual ownerships, or interests in them. In this way that same protection, recognition or consideration, to which all interests, whether individual or corporate, are alike entitled, would be assured.

PUBLIC UTILITIES.

THE "SERVED" AND THE "SERVERS."

Under the existing conditions the corporations or combinations represent the "servers." To the shareholders, dividends represent good management and desirable investment, but to many of the community, the community that is "served," profits which in individual enterprise would be considered reasonable are unreasonable and forced out of their pockets by unscrupulous management or illegal or dishonest practices.

The contest between the "served" and the "**servers**," the "**producer**" **and** the "consumer," between "he-who-has" and "he-who-has-not," has been going on from the dawn of civilization, from the time when some one had more of some one thing than he wanted, while another had none, or less than he wanted.

From time immemorial efforts have been made in some way to control or restrict any accumulation, in the hands or in the uncontrolled possession of any individual or set of individuals, of those things which had become necessary to public wants, and to prevent necessities from in any way getting outside that control which natural competition, or the law of supply and demand under normal conditions exercises.

There has always been and will always be the laudable desire of the great public to be served rightly, and as cheaply as possible, which sometimes selfishly degenerates into a lack of consideration for the rights of those who are serving.

On the other hand there has always been the laudable desire of the "server," or the producer, to get a profit for his service or production, which sometimes degenerates into a selfish disregard or lack of consideration for those who are served.

This conflict, which originated with the first commercial transaction or exchange, has continued ever since and will continue to the end of time.

Until the state, or conditions under which society was organized, began to be complex there were very few things which were not and could not be regulated by the law of supply and demand, the law of substitution of one article for another in case of scarcity, or by the laws of competition. In the simple life, which was with the masses of the people until very recent years enforced, and is with all laudable, there were few articles which were in themselves necessities, and of these very few which did not have alternative articles of use, or substitutes, and, in fact, there was little that was not produced by the local community or by the family. Those few things which, in the growth of civilization, and particularly by the increase of urban population, were of general use and necessity for all, those few things in which the masses of the public had an interest in receiving regularly and reasonably, soon became the object of control or regulation, and here was the beginning of and reason for state control and regulation or state ownership.

Public Control.

Public control or regulation of Public Service Corporations by permanent commissions, has come and come to stay. Control or regulation exercised through such a body has many advantages over that exercised through regular legislative bodies or committees. The permanent commission will be a quasi-judicial body. It should be made up of members whose duty it will be, and who will have the desire, the time and the opportunity, to familiarize themselves with the questions coming before them. It should act only after thorough investigation and be governed by the equities of each case. It would in time establish a course of practice and precedent for the guidance of all concerned.

Experience also has demonstrated that this "supervision" should stop at "control" and "regulation" and not "manage," "operate" nor dictate what the management or operation should be beyond the requirements of the greatest efficiency and economy.

Management or operation requires intimate knowledge and experience which can only be gained by continuous, active and practical participation in actual working, while control or regulation can be intelligently exercised, after judicial hearing, by those who have not the knowledge or experience to operate.

State control or regulation should be of such character as to encourage the highest possible standard in plant, the utmost extension of facilities, the highest efficiency in service, rigid economy in operation, and to that end should allow rates that will warrant the highest wages for the best service, some reward for high efficiency in administration, and such certainty of return on investment as will induce investors not only to retain their securities, but to supply at all times all the capital needed to meet the demands of the public.

Such "control" and "regulation" can and should stop all abuses of capitalization, of extortion or of overcharges, of unreasonable division of profits.

If there is to be state control and regulation, there should also be state protection—protection to a corporation striving to serve the whole community (some part of whose service must necessarily be unprofitable), from aggressive competition which covers only that part which is profitable.

Governmental control should protect the investor as well as the public. It should ensure to the public good service and fair rates. It should also ensure fair returns to the investor.

A public utility giving good service at fair rates should not be subject to competition at unfair rates.

It is not that all competition should be suppressed, but that all competition should be regulated and controlled. That competition should be suppressed which arises out of the promotion of unnecessary duplication, which gives no additional facilities or service, which is in no sense either extension or improvement, which without initiative or enterprise tries to take advantage of the initiative and enterprise of others by sharing the profitable without assuming any of the burden of the unprofitable parts or which has only the selfishly speculative object of forcing a consolidation or purchase.

State control and regulation, to be effective at all, should be of such a character, that the results from the operation of any one enterprise would not warrant the expenditure or investment necessary for mere duplication and straight competition. In other words, the profits should not be so large as to warrant duplication of capitalization in the competition for the same business.

When thoroughly understood it will be found that "control" will give more of the benefits and public advantages, which are expected to be obtained by state ownership, than could be obtained through such ownership, and will obtain them without the public burden of either the public office-holder or public debt or operating deficit. It is conceded that as a rule private management is better, more economical and more efficient than public management, and much more advanced and enterprising. The economical margin between public and private management has been shown by experience to be more than sufficient to secure the best private administration.

When through a wise and judicious state control and regulation all the advantages without any of the disadvantages of state ownership are secured, state ownership is doomed.

State control of public utilities should not prevent progress, should be sufficiently unrestricting to encourage the introduction and demonstration of the value of any new or novel enterprise, and should allow sufficient reward for the initiative, enterprise, risk and imagination of the adventurers behind such enterprises. It should discriminate between the useful adventurers or promoters, pioneers in fact, and those pirates or sharks who, on the strength of other successes, extravagantly capitalize undeveloped ideas, and exchange the worthless securities for the savings of deluded and credulous investors. Corporate control and restriction should always exist to a sufficient degree to prevent such speculative promoting, and such stock-jobbing schemes.

The regulation or control of any new or novel thing which is a mere convenience and not a necessity can be left largely to the laws of trade; such a thing, if offered, must be offered at a price acceptable to the public, who are the customers, at a price which in the opinion of the purchaser leaves him a margin of profit either in convenience or enjoyment. Under such control private initiative can be depended upon for the introduction of everything believed to have possibilities.

The combination of the promoter, investor and capitalist, with their imagination, personality, optimism and desire, has been at the bottom of every development of every kind or nature which has benefitted the human race in the way of utilities, and still is the only way in which new utilities can be developed. Whenever any great works have been undertaken by governments they have been on lines of old development, based on experience of that which has been developed by the persistent genius and application of some individual or group of individuals.

State control or regulation, to be effective, should when exercised, be accepted and acquiesced in by the public. If all the decisions not in exact accord with the desire or contention of the public are condemned, if it is expected and required that all decisions be against the utilities controlled, if politics and political effect are to govern decisions, if decisions go for nothing with, and are not respected by the public, failure and disappointment are bound to follow, self-respecting men will refuse to act, the standard of appointments will fall and state control and regulation will become a disgrace, and the evils which it was intended to correct will multiply.

If any company gives good service, meets all the reasonable demands of the public, does not earn more than sufficient to provide for the maintenance of its plant up to the latest standard and for reconstruction of plant when worn out or obsolete, pays only fair dividends to its shareholders—if a company is only doing this its rates and charges to the public cannot be unreasonable.

COMPETITION VS. CONTROL OR REGULATION.

Effective, aggressive competition, and regulation and control are inconsistent with each other, and cannot be had at the same time.

Control or regulation, to be effective, means publicity; it means semi-public discussion and consideration before action; it means deliberation, non-discrimination; it means everything which is the opposite of and inconsistent with effective competition.

Competition—aggressive, effective competition—means *strife,* industrial warfare; it means contention; it oftentimes means taking advantage of or resorting to any means that the conscience of the contestants or the degree of the enforcement of the laws will permit. To make competition effective great and uncontrolled latitude of action is necessary; action must be prompt and secret.

Aggressive competition means duplication of plant and investment. The ultimate object of such competition is the possession of the field wholly or partially; therefore it means either ultimate combination on such basis and with such prices as will cover past losses, or it means loss of return on investment, and eventual loss of capital. However it results, all costs of aggressive, uncontrolled competition are eventually borne, directly or indirectly, by the public.

Competition which is not aggressive, presupposes co-operative action, understandings, agreements, which result in general uniformity or harmony of action, which, in fact, is not competition but is combination, unstable but for the time effective.

Competing Exchanges.

Two local telephone exchanges in the same community are regarded as competing exchanges, and the public tolerates this dual service only in the fast disappearing idea that through competition in the telephone service some benefit may be obtained both as to rate and efficiency. Competition means that the same thing, or a satisfactory substitute, is offered. In this sense there can be no competing exchanges unless each exchange has substantially the same list of subscribers, which is in itself inconceivable.

It is not telephone service *per se* that an exchange affords; it is a particular, definite telephone connection between two people which can only be given between two parties connected with the same exchange or the same system. Each of the several independent exchanges in the same community offers you telephone service, but telephone service only with its particular list of subscribers.

Opposition exchanges compete in the same way as do two street railway lines, each starting in the center of the city, running a short distance through the same main street, and then branching off, each supplying an entirely different district of the city. Those traveling only from point to point on the main street can use either line, pay one fare; there is to this extent competition—there is a choice. Beyond that, to reach the other districts, there is no choice, there is no competition; one line or the other must be taken, depending on the particular district wished to be reached.

In the case of the street car service, payment is made only to the line used, when used.

To be in a position to obtain full telephone service where there are opposition exchanges, subscriptions to all are necessary.

In all other opposition utilities, to get the full service one or the other is paid—not both.

As before said, the purpose and object of an exchange is to afford a direct speaking circuit between parties at points distant from each other, to afford a highway for personal communication between any two. The exchange gives nothing but that connection, does nothing but provide that highway of communication, and place it at the service of the two parties desiring to communicate. The actual communicating is done by the parties themselves over this circuit placed at their exclusive service for the time being. To get this service, however, both parties must be connected with the same system; if not, the telephone circuit between the two parties cannot be made.

In two exchanges each having 2,000 subscribers, Messrs. A, B, C, D, E, F, G, H, I, J, K, L, M, N are connected with one, and Messrs. A, B, C, O, P, Q, R, S, T, U, V, X, Y, Z, connected with the other. Messrs. A, B, and C can use either exchange to connect with each other, but to connect with each other one exchange with one subscription and with but one payment would be sufficient. This is not competition; this is duplication.

Messrs. A, B, C can connect with all the others on both exchanges only by two subscriptions and two payments. There is no choice; there is no competition.

Any competition between opposition exchanges is confined to obtaining new subscribers—to increasing their subscription lists. Neither the same thing nor what could possibly be called a substitute is offered. Each exchange affords that connection between the subscribers on its particular list and that is all—between Messrs. A, B, C, D, E, F, G, H, etc., or between Messrs. A, B, C, O, P, Q, R, S, T, etc. A subscription to only one exchange is of no benefit when a connection with the other exchange is wanted, subscription to the other exchange is also necessary. This is not competition in any beneficial or any other sense.

When anyone decides to become a subscriber to an exchange he does not go to the one which offers any other inducement than the ability to connect with the people with whom it is the habit or necessity of the person subscribing to communicate. If it is his habit or necessity to communicate with some or all of those on both exchanges, subscriptions to both exchanges are necessary; in other words to get the advantage of complete local telephone service in a community, subscription to every local exchange in that community is necessary.

The fundamental idea of the Bell System is that the telephone service should be universal, intercommunicating and interdependent; that there are *certain people* with whom one *communicates frequently* and *regularly*; there are a *certain few* with whom one *communicates occasionally*, while there are *times* when it is *most necessary to get* communication with *some other one*, who, until the *particular necessity* arose, *might have been unknown and unthought of. It is this necessity, impossible to predetermine, which makes the universal service the only perfect service.*

On the assumption that a perfect telephone system must afford this direct highway of communication between any two desiring to converse, this system must reach everyone; must be universal, comprehensive. To the extent that any system does not reach everyone it is not perfect; to the extent that any system does not reach everyone, it is not in competition with the one that does; and to the extent that both systems reach everyone it is merely duplication; it is not competition.

Two exchanges may compete for subscribers, but not by offering the same list of subscribers; it would be impossible to keep the list of subscribers to any two opposition exchanges the same. One may offer a more desirable list of subscribers from your point of view than the other, therefore you will subscribe to that one, but if both offer an equally desirable list of subscribers to you then you must choose between them, or you must subscribe to both exchanges.

One may call the carriage industry and the automobile industry competing. They are in a sense, or one is a substitute in a very general sense for the other. One might say the wholesale or retail flour merchant and the rice merchant are competing, as one is a substitute for the other, but two exchanges offering different lists of subscribers are not competing even in that sense, as neither is a substitute for the other, in that on one you may have communication with certain people, and on the other with certain other people; therefore they are not competing.

Two exchange systems in the same place offering identically the same list of subscribers, if such a thing can be imagined, are as useless as a duplicate system of highways or streets in a village not connecting with each other, but each reaching all the residents.

PHYSICAL CONNECTIONS.

Physical connection. What is meant by it? And what object is it intended to accomplish?

Where there are two or more so-called competing local telephone exchanges in the same territory, each offers a particular service; each offers a connection with its particular list of subscribers.

Physical connection would connect these separate exchanges by trunk lines the same as exchanges belonging to one system are connected.

This in itself would be an easy matter in many cases, and would allow the subscriber to one local exchange speaking connection with the subscribers to the other local exchanges. A fairly satisfactory service could be given if all of the exchanges had the same general style of equipment, uniform operating methods, and if harmony and concert of action between the operators of entirely independent and rival exchanges could be assured.

But what has been accomplished? You have enabled any subscriber to any exchange to communicate with any subscriber to any other exchange. You have not avoided the objectionable duplication. You have not given service to all the exchanges for one subscription. This can only be done through merger or combination, not by physical connection. Physical connection implies separate and independent entities. For the privilege of this physical connection with the other exchanges the subscriber to any one of the exchanges must pay. This payment or toll must be more or less the equivalent of what the regular subscribers pay, otherwise there would be discrimination.

If the equipment and the operating methods of the opposition or independent exchanges physically connected are different, the service is bound to be unsatisfactory. No one of the exchanges can have any control over the operators of the other exchanges. There is bound to be strife and contention between the operators, resulting in delays and poor service. Each exchange must necessarily give preference and attention to its own service.

From the standpoint of local telephone exchange service, therefore, there can be nothing to gain from physical connection, either in economy or quality of service.

The most important matter to consider in connection with physical connection, the one that has the greatest bearing on the subject, is the character of such physical connection between telephone exchanges, and wherein it differs from regular exchange of service or physical connection between other public utility companies.

A telephone exchange does not furnish a commodity, does not transport goods, nor does it transmit messages.

What the telephone exchange does is to place at the disposition of any subscriber a telephone circuit, consisting of two wires, connecting such subscriber with another person at a distant point. This circuit enables them to carry on speaking communication with each other; it must be continuous and unbroken; it is for their exclusive use and while the circuit is at their service it cannot be used by any others desiring to communicate, or for any other telephone purpose. The employes of the exchange render no other service than selecting and connecting the wires together to form this circuit, and putting the parties in communication. To do this, and do it satisfactorily, the operators making up the circuit must have absolute control of the wires necessary for these circuits over the whole distance between the points of communication; that is, the operator at the starting point must have either control of or perfect working unity and harmony of action with all the operators of all the trunk lines and exchange lines necessary for this circuit.

These conditions can only exist where there is a strong, common interest or control.

Physical connection between independent or opposition exchanges means, therefore, the placing of the wires necessary to give it effect out of the control for the time being of the owning company and under the control of a competing, opposition company, to enable that competing, opposition company to give its subscribers the use of property, equipment, facilities, operating staff, other than its own, and for the time being depriving the owning company and its subscribers of the use of such facilities.

Physical connection demands the exclusive use of an integral part of the property and facilities and operating staff of one company for the customers of a competing company, no matter how urgent may be the owner's necessity for the immediate use of such property and facilities, nor how small the surplus facilities beyond the owner's requirements.

If the service consisted of carrying packages or transmitting messages along with other packages or other messages, or hauling cars to their destination, or accepting through tickets or transfers from connecting or cross lines of travel, it would be very different. In such cases the property, facilities and operation remain in the control of the owning company or its operating staff; no property intended for the benefit of the customers of one company is put to the exclusive use of another company; all that is done, is the same as is done with and for all comers. The package or passenger is carried, or the message transmitted, to its destination at the convenience of the company, along with other packages or messages.

So far we have considered only the local exchange. Physical connection between independent or opposition telephone systems or between an independent local exchange and a telephone system presents not only the same but many more complications, and is far more objectionable.

To better understand what is meant by physical connection and what it is meant to accomplish, a knowledge of the evolution and development and policy of the Bell System is necessary, and what that policy and belief is.

Repeating what has been said above, it believes that the telephone system should be universal, interdependent and intercommunicating, affording opportunity for any subscriber to any exchange to communicate with any other subscriber of any other exchange within the limits of speaking distance, giving to every subscriber every possible additional facility for *annihilating time or distance by use of electrical transmission of intelligence or personal communication.* It believes that some sort of a connection with the telephone system should be within reach of all.

This is what the Bell System aims to be—one system with common policy, common purpose and common action; comprehensive, universal, interdependent, intercommunicating; like the highway system of the country, extending from every door to every other door; affording *electrical communication of every kind,* from every one at every place to every one at every other place.

To create this system has been the policy of the Bell interests from the beginning. It is the only way by which a satisfactory telephone service—satisfactory to the public or profitable to its owners—can be maintained.

The Bell System as established is as advanced and extended as the country as a whole will warrant. Its policy of extension carries it a little in advance of the public demands. In any effort to cover the whole country many unremunerative exchanges and toll lines have to be constructed and operated. Some of these will in time become remunerative; some never will, and those, for the benefit of the whole system, will have to be carried at the cost of the whole system.

Most of the opposition exchanges have been built up in a selected territory with capital obtained by the promise of, or in anticipation of large profits; as a rule capitalized far in excess of the plant value or construction cost. Subscribers have been obtained by promises of improved service at low rates. Many of such exchanges owe what success they have, where there is any success, to personal local influence or interest. Many, if not all, have been a disappointment. The day of local telephone exchanges or limited telephone systems has gone. This is recognized and fully appreciated by those who have exploited or are operating them.

The idea of physical connection is born of a desire to get for these local and isolated competing or opposition exchanges or these comparatively limited exchange systems, the advantage of the more extensive, comprehensive Bell System. To get for the subscribers of these so-called competing, opposition exchanges the connections which their own systems do not give them, to get for their subscribers all the advantages enjoyed by subscribers of the Bell exchanges by giving them the use of a part of the Bell System.

Physical connection would force the Bell System to place at the disposal of and under the control of any opposition company, Philadelphia for instance, for the time being, one of its circuits from Chicago to Philadelphia, to connect that Bell circuit with the circuits and system of the opposition company and disconnect it, for the time being, from the circuits of the Bell System.

This is not carrying packages or transmitting messages for the subscribers of the opposition Philadelphia exchange; it is turning over to that exchange for the use of its subscribers the property of the Bell System.

The fact that the opposition exchange could get such facilities would enhance its importance at the expense of the Bell System.

Physical connection would force the comprehensive Bell System, which has been built up with foresight and enterprise and is being maintained in its completeness at the cost of maintaining unremunerative exchanges and unremunerative lines, to turn over to, and put under control of, any opposition system for its use and benefit, for the time being, a physical part of the property of the Bell System and at the same time deprive the subscribers to the Bell System of the use of such property. Physical connection would oblige any system to construct and maintain surplus facilities and employ a surplus staff of operators for the benefit of any so-called competing or opposition—but less enterprising—company.

No possible compensation would be adequate for such service or such deprivation.

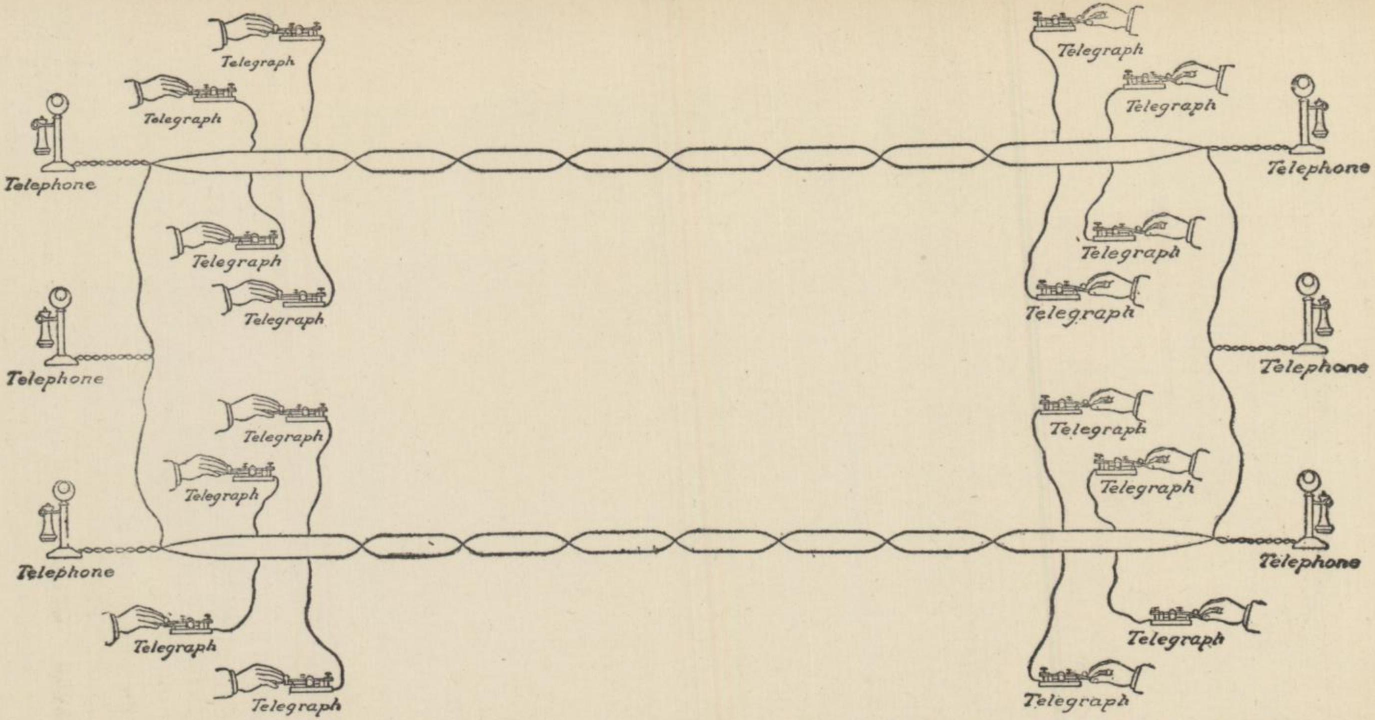
One of the arguments for physical connection is that it will stop duplication. How? All agreements as to territory, rates or character of opposition; all arrangements which would come under the head of combination or pooling; all understandings or anything that would be equivalent to consolidation or combination, must be eliminated; this is not what is meant by and is not a part of, physical connection. Leaving all understandings out of consideration what effect would physical connection have on the local opposition exchanges? Neither exchange could stop competing for subscribers. The exchange that did would soon dwindle to a point of absolute undesirability; in other words, to a point where the subscription list would offer no inducements to others to join. Consequently activity must be maintained, each exchange making every effort not only to retain all on its list of subscribers but to add more. The same territory must be covered, the consequent duplication of conduits, pole lines, central and branch offices must continue; in fact the strife or competition would have to be more severe.

It is claimed that physical connection would bring about one system, where any one telephone subscriber could obtain connection with any other telephone subscriber within the limits of possible communication. With physical connection that would be the case, after a fashion, but what kind of a system would it be? It would be imperfect in that it would still be a dual system, with dual charges, made up of heterogeneous units of exchanges and lines, operated under independent managements with different operating methods and interests, with no common control over operators, without which service can not be satisfactory; in fact with all those imperfections that it has taken the Bell interests years to correct—imperfections which can be removed only by combination, agreement, understanding, which would be in effect consolidation.

Such demand as there may be for physical connection from opposition exchanges is a recognition of superior facilities and comes from a desire to get the benefits of those superior facilities.

So far as it comes from the public it is an expression of weariness with dual service or so-called competition.

Is there anything in practice, law or precedent that can compel one system, built upon a comprehensive basis, and trying to meet all the requirements of the public, to turn over its physical property for the use of so-called competitors—opposition exchanges built in selected territory with selfish views or motives? Is there anything to compel one to share the prosperity of a business created by enterprise and advanced policy with those who wish to appropriate the benefits of such work? Can any public utility company be compelled to divest itself of the operating control of its own property which was created for and may be needed at any time in the conduct of its own business? This is not the kind of interchange of business contemplated by the rules governing common carriers. It is not cooperation. It is pure and simple confiscation.



TWO TELEPHONE CIRCUITS IN DAILY USE BETWEEN NEW YORK AND CHICAGO CARRYING THREE TELEPHONE CONVERSATIONS AND EIGHT TELEGRAPH MESSAGES SIMULTANEOUSLY WITHOUT INTERFERENCE WITH EACH OTHER.

TELEPHONE AND TELEGRAPH.

The relations between the telephone system and the telegraph system are complementary.

Telephone service is furnishing for the personal use of the public an electrical circuit for personal communication between distant points. Nothing is carried by the telephone company, no commodity furnished, nothing transmitted by its staff, and nothing done except to make up a direct circuit between, and place it at the disposal of, the parties.

It annihilates distance in that it brings parties at distant points into speaking distance with each other.

Telegraph service is the electrical transmission, by the operating staff of the telegraph company, of written communications for others.

It annihilates time in that it instantaneously transmits written messages between different points.

The telephone provides something to be used by the public themselves.

The telegraph performs a distinct service for the public.

A telephone "circuit" consists of two copper wires of superior construction, arranged in a particular relation to each other, forming a metallic circuit equipped with auxiliary apparatus, loading coils, etc., connected with a switchboard—all very complicated and elaborate.

A telegraph "circuit" consists of one wire at most—a grounded circuit. This wire can be divided into several distinct "circuits."

A telephone "circuit" cannot be used for telephone purposes by any but the two parties in communication, during the time of such communication, but the same telephone "circuit" can, at the same time it is being used for telephone service, be divided into two, four or even eight telegraph "circuits," each of which can be used for the transmission of telegraph messages.

While the existing telephone toll and long-distance lines can be used for telegraph purposes, the existing telegraph lines cannot be used for telephone toll and long-distance purposes until reconstructed and arranged as described above.

There are two factors which determine the cost of both services—Plant Cost and Operating Cost. The total of these costs must be distributed over the actual service performed, and the cost of each item of service, whether telephonic communication or telegraph message, varies directly with the total amount of that service. The more the capacity of the plant in service is utilized the less the cost of each particular item of service.

The plant cost is the fixed charge on capital invested in plant, the cost of its maintenance and the depreciation reserve.

The operating cost is more or less a constant initial charge on each item of service, i. e., telephone connection or telegraph message. In the telephone service it is the cost of the time of the operators in putting up the circuit or connection for the use of the parties, and getting them into communication with each other. It is relatively small in that one set of operators can care for a number of circuits. In the telegraph service there is a large constant initial cost, for each message, made up of the cost of the skilled and expert operators on each circuit, offices with clerical and messenger staff for the collection and delivery, receiving, recording and preparing messages for transmission, insurance against mistakes in transmission or delay in delivery, etc.*

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* NOTE. It seems unreasonable that a telegraph company should have a possible liability of many thousands of dollars for a single message at ordinary rates. There is no other business where there is not some additional charge for insurance beyond a minimum.

The possible use—the number of hours during which a telephone circuit can be used as well as the number of items of service, i. e., communications or connections, which can be given within those hours—is limited by the necessity of the *personal presence* on the circuit of the parties communicating; by the time necessary to get both parties on the circuit; by the time taken by the communication; and by the intervals lost while waiting for parties.

This limited capacity, together with the costly character of the telephone circuit, makes the plant cost of each connection or communication very large. The operating cost is relatively very small in that one set of operators can take care of the connections of a number of circuits.

The relatively small operating cost and large plant cost make *distance* the important controlling element in the cost of telephone toll line or long-distance service.

In the telegraph service the messages are transmitted by the operating staff, one after another, with the speed of writing. There are no lost intervals during the busy hours. The plant cost of each item of service, i. e., the telegraph message, is relatively very small, while the operating cost, for reasons given above, is relatively very large for each message.

The relatively large operating cost and small plant cost per telegraph message make distance a subordinate factor in the cost of telegraph service.

The ratio of the possible number of telegraph messages over the same wires compared to the possible number of telephone communications is very large.

It is possible to "telephone" messages, but while the operating cost would be somewhat larger than in the case of "telegraphing," the plant cost would make telephoning messages prohibitive over long distance under ordinary conditions. The use of the telephone for that purpose is therefore limited economically to short distances, or some situation where the plant cost would be almost or entirely negligible.

The small operating but very large plant cost of the telephone communication and the large operating but relatively small plant cost of the telegraph message limit the possibility of either being used indiscriminately or interchangeably to *very short distances, or to other particular situations.*

Under existing conditions or the present state of the art, the "telephonic" transmission of written messages cannot take the place of "telegraphic" transmission in the regular conduct of the business.

In a large way the complementary character exists in the joint occupancy and joint use for both purposes of the trunk line plant of both companies. For the general service of each the operating staffs of the telephone and of the telegraph are in every respect distinct and different, and not in the slightest degree interchangeable. Each function requires an independent operating organization, made up largely of experts in each particular business, complete in every respect. Any attempt on the part of a telephone company to do a regular "telegraph business" would necessitate a "telegraph" operating organization in addition to its "telephone" operating organization.

Before a telegraph company could do a "telephone business" it would be necessary to reconstruct and rearrange its entire wire plant; to construct and equip central offices, distributing subways and lines, subscribers' connections and stations, at a cost of several times its existing telegraph wire plant, and also to create a distinct "telephone" operating organization.

While the large economies are in the joint occupancy and the joint use of the trunk "wire plant," there are great advantages and large economies in the utilization for both purposes of other plant and operating facilities which must be maintained for a single purpose in any case, and which could bear the additional burden of the service of the other without an additional cost. There are in the distributing and branch lines of both services large plant and operating facilities which are only being utilized to a small part of their capacities; where the business of either company is not sufficient to maintain either office or operating staff; where to maintain any office there must be utilized the office and employees of some business which has first claim on the service and attention of such employees. Under these conditions satisfactory service is impossible, and to a great degree affects the reputation of the whole service, particularly that of the telegraph. This large economic waste incident to separate service could be almost entirely eliminated by joint use or occupancy, and by bringing the business entirely under one common control or influence the efficiency and the reputation of the service could be greatly improved.

The utilization of plant and operating staff not fully employed makes it possible to collect and deliver messages by telephone and to connect exchanges and subscribers' stations by telephone toll lines with the night telegraph offices at other points.

To the extent that these waste facilities are utilized for public benefit and private profits, just to that extent regular standard service could be cheapened or *new service* and *additional facilities* given to the public.

The idea of universality has been referred to in connection with the telephone system. This idea can be broadened and applied to a wire system. We believe that the future development of the wire system in the United States will afford facilities for the annihilation of both *time and distance* by the general use of *electrical transmission* for *written or personal communication,* and will afford electrical communication of every kind of intelligence from everyone at every place to everyone at every other place. It will be comprehensive, universal.

To do this efficiently and economically means the combination of every kind of electrical transmission of intelligence into one system in order that new and additional uses may be developed and that the wire plant and other facilities may be utilized to their fullest extent.

Cheap service comes from full loads. In the wire service this can only be had by employing the plant to its full capacity, *all the time.* The charts on pages 56 and 57 will show to what a limited extent this is now being done.

In some lines of business like the transportation of passengers, where the unit of service is the car mile, and the overload capacity of the car is large, the average load can be greatly increased by making use of the "overload" during the few hours of maximum business. In no other way could the prevailing cheap fares be afforded for such long hauls.

In the electrical transmission of intelligence each item of service, the "message" or "telephonic connection" occupies the wires and the time to the exclusion of all else, and the law of increasing returns therefore works within the narrow limits of the capacity of the line. There can be no overload. *Cheaper service can only be given by the development of new or additional uses which can be distributed over the time now unused.* In the telephone business what can be done in this direction is restricted by the necessity of the personal presence of the parties using the telephone, which limits the use of circuits for telephone purposes to certain hours of the day. In the telegraph and cable business, under present conditions, it is different. There is a large capacity unused waiting to be utilized.

Expedited service means a large surplus plant to meet maximum demands, unutilized at all other times. The cost of the unutilized facilities must be borne by the expedited service. The result is high charges, due to small average load with consequent large plant cost.

Up to the present time the telegraph and cable business has been developed wholly on lines of *expedition* and the business that has been developed is such as will stand the extra cost of expedition. Theoretically at least, there should be no possibility of any further expedition, of any rush or special service, beyond what should be, if it is not now being given.

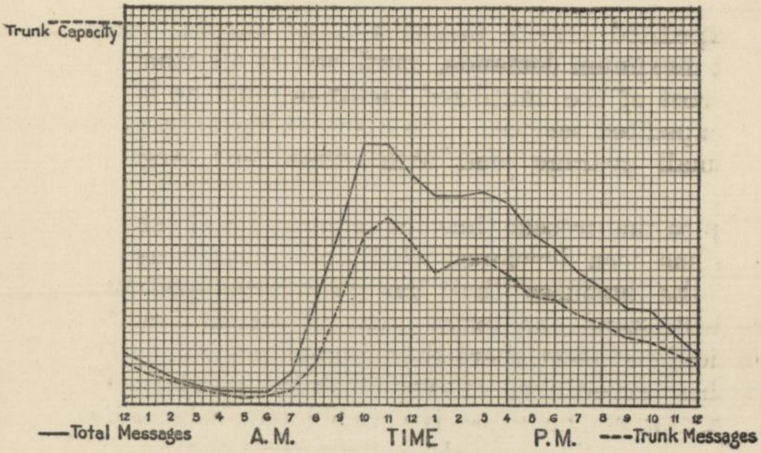
To do anything which would retard the expedition of the business as now developed would be detrimental to the social and business organization of the world; as in expedition lies the prime value of the present service.

Under a universal wire system operated on the lines and in the manner indicated above, the additional services will be given to the public at rates commensurate with the value of such services, and in the great possibilities of electrical transmission of intelligence some uses will be found or developed to absorb and utilize this enormous waste, and also relieve any congestion now suffered by the more important business by furnishing a service which would be satisfactory to such of the existing business as has heretofore had no alternative, but would prefer the new service.

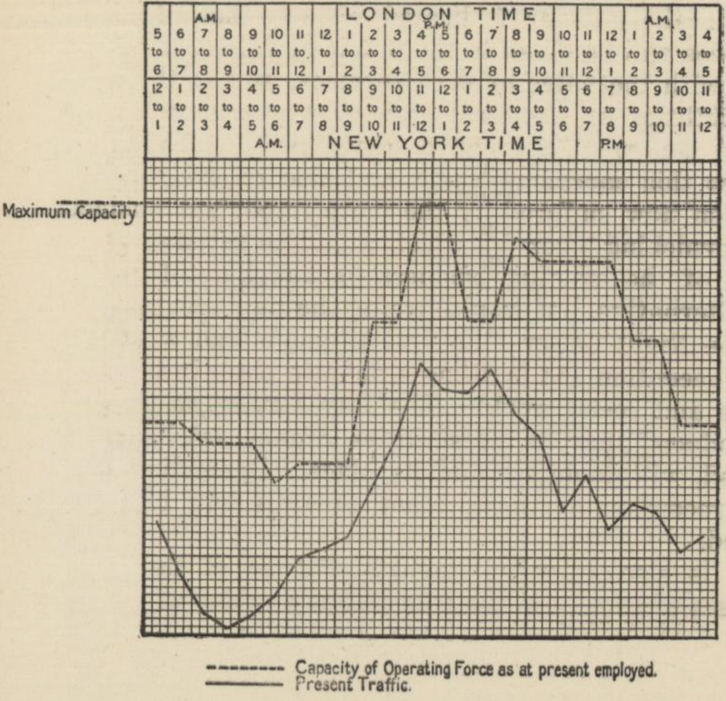
The Night Letter—the first attempt—met with popular reception and is filling a definite place in the business and social world. The Day Letter, so recently introduced that its possibilities cannot yet be determined, will doubtless find its place. Depending upon the reception of these, other services will be introduced.

It is also intended to extend some of these new classes of service to the transatlantic cables as soon as

W. U. TELEGRAPH CHART
SHOWING
RANGE OF SENT AND RECEIVED BUSINESS
AT
NEW YORK.

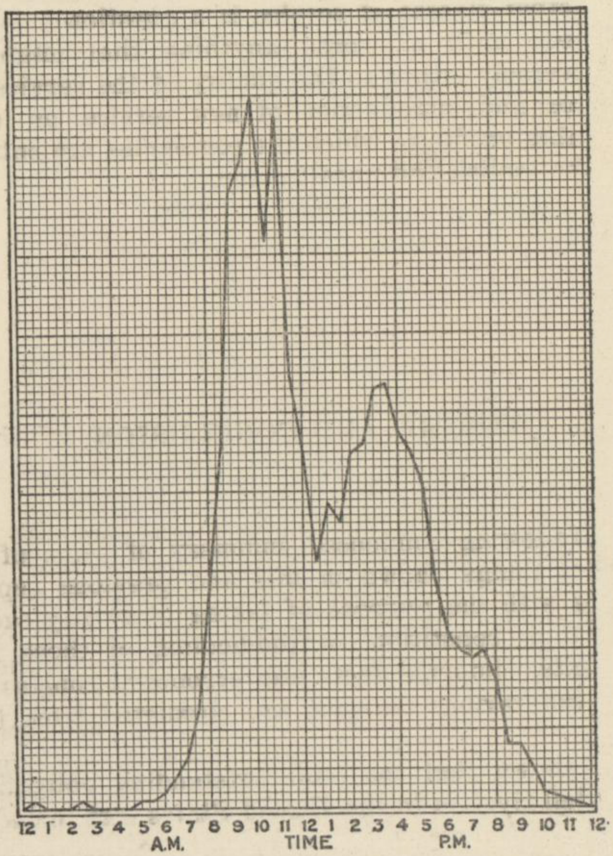


CABLE CHART
OF
TRANSATLANTIC BUSINESS
SHOWING THE
CAPACITY OF OPERATING FORCE
AND THE
RANGE OF BUSINESS DONE.



TELEPHONE CHART

TYPICAL LONG DISTANCE TRAFFIC RECORD



it is made possible by the completion of negotiations and arrangements now pending.

Until the economies, which may result from the joint occupancy or joint use and the consequent utilization of these now unutilized facilities, are determined, there will be no changes made in the present conduct of expedited or regular service. Whether all or only part of the economic waste will be absorbed in the other classes of service is a question yet to be answered; until answered anything that might result adversely either to the quality of the service, the extension and introduction of new service, or to the reasonable profits to which the companies are entitled, would be foolish and uncalled for.

RÉSUMÉ AND CONCLUSION.

The following condensed summary of some of the principal things shown in this and previous reports is made with the purpose of taking away any excuse for further repetition or publication of those misstatements, distorted facts and erroneous conclusions which, for various reasons, are circulated from time to time.

It is shown that the total outstanding obligations of the Bell System in the United States, not including the manufacturing company, amount to $580,000,000. All the capital of the various companies composing the System not included in this consists of inter-company items and duplications.

It is shown that the book value of the property representing these outstanding obligations is $696,700,000, $116,000,000 in excess of the outstanding obligations. It is shown that in all cases of official appraisement the actual value of this plant has been found to be above the book value.

It is shown that there is no water in the capital of the American Telephone and Telegraph Company; that each $100 of outstanding obligations is represented by more than $100 cash paid into the treasury; that the excess of cash paid into the treasury over the outstanding obligations at the close of the year amounted to nearly $17,000,000.

It is shown that the construction costs of the Bell System arc small. The cost per exchange station is but $117.12. The cost per exchange station, including the extensive system of toll lines, is but $142.13. This valuation includes the first class exchanges and exchange construction. All or substantially all of the cheaper class of construction, the rural co-operative and association lines, is embraced in the sub-licensee or connected companies, constructed on the basis of giving a low-cost local service.

It is shown that the cost of construction per exchange station has steadily decreased from $199.00 in 1900 to $142.00 in 1910, notwithstanding the great increase in the investment in real estate, underground construction, toll line construction and copper wire.

It is shown that instead of increasing and oppressive rates there has been a continual decrease of the average annual charge for exchange service from an average of $44.68 in 1900 to $31.28 in 1910.

It is shown that the taxes paid in the year 1910 by the Bell System amount to over 5 per cent. of its gross earnings, 16.4 per cent. of its net earnings, and 1.4 per cent. of the value of its telephone plant.

It is shown that the control of the company is not vested in any one interest nor has it been used for the benefit of any individual or group of individuals; that the shareholders, recognizing an uninterrupted administration of their affairs in their interest have continued the Directorate on the same lines or the lines of natural succession from the beginning.

It is shown that the American Telephone and Telegraph Company is not in the accepted sense a trust nor has it been built up by absorbing competing companies or in restraint of business. That while the Bell System is made up of separate corporations, these corporations are not, never have been, and never could be in competition, and also that under any system of organization or under one ownership, separate companies are necessary for purposes of State jurisdiction.

That a universal and comprehensive telephone system cannot have any operating limits, but must give unbroken, continuous, connecting circuits under one control, from every subscriber's station in every direction to the limits of telephone speaking possibility.

It is shown that bona fide competition between local exchanges cannot exist, owing to the peculiarities of the service rendered by these exchanges.

It is shown that physical connection does not and cannot bring about any economical or beneficial result and increases instead of decreases the evil of dual construction and subscription.

That physical connection would give to subscribers of an opposition exchange the service and use of property provided for the use of others, and for which others pay.

We are charged with maintaining a large experimental and patent organization largely for the purpose of suppressing new inventions and improved methods. The Bell System does maintain a large experimental and engineering department, but for the purpose of developing the value and efficiency of anything that is new; what it really does is demonstrated by the fact that the construction, equipment and operating methods of the Bell System are the standard the world over. That the equipment of the exchanges of the whole world is either the same as, or is modeled upon that of the Bell System. And that no construction, equipment or operating methods rejected or "suppressed" by the engineering experts of the Bell System have ever yet come into permanent use.

We are charged with making abnormal profits on the equipment, supplies, etc., furnished the operating companies by the Western Electric Company, and in this way increasing the cost of service to the public. It is shown that the profits on Western Electric sales to the operating companies of the Bell System are less than on sales to the independent companies, to the extent at least of the saving in the cost of selling to the operating companies.

It is also shown that the telephone service and the telegraph service are complementary, not competitive; that each has its own proper place; that joint use and joint occupancy of wires will reduce operating cost, maintenance charges and construction investment. That utilizing the unutilized facilities of both will make possible large economies and improvement in the wire service as well as new, additional and useful services of both telephone and telegraph, for the benefit of both the corporations and the public.

For the Directors,

THEODORE N. VAIL,
President.

BELL TELEPHONE SYSTEM IN THE UNITED STATES.

	Dec. 31, 1895.	Dec. 31, 1900.	Dec. 31, 1905.	Dec. 31, 1909.	Dec. 31, 1910.	Increase, 1910.
Miles of Exchange Pole Lines	25,330	30,451	67,698	113,893	120,175	6,282
Miles of Toll Pole Lines	52,873	101,087	145,535	164,111	167,827	3,716
Total Miles of Pole Lines	78,203	131,538	213,233	278,004	288,002	9,998
Miles of Underground Wire	184,515	705,269	2,345,742	5,337,436	5,992,303	654,867
Miles of Submarine Wire	2,028	4,203	9,373	22,698	24,636	1,938
Miles of Aerial Wire	488,872	1,252,329	3,424,803	5,119,892	5,625,273	505,381
Total Miles of Wire	675,415	1,961,801	5,779,918	10,480,026	11,642,212	1,162,186
Comprising Toll Wire	215,687	607,599	1,265,236	1,804,552	1,963,994	159,442
Comprising Exchange Wire	459,728	1,354,202	4,514,682	8,675,474	9,678,218	1,002,744
Total	675,415	1,961,801	5,779,918	10,480,026	11,642,212	1,162,186
Total Exchange Circuits	237,837	508,262	1,135,449	1,829,942	2,082,960	253,018
Number of Central Offices	1,613	2,775	4,532	4,968	4,933	35†
Number of Bell Stations	281,695	800,880	2,241,367	3,588,247	4,030,668	442,421
Number of Bell Connected Stations	27,807	55,031	287,348	1,554,445	1,852,051	297,606
Total Stations	309,502	855,911	2,528,715	5,142,692	5,882,719	740,027
Number of Employees	14,517	37,067	89,661	104,956	120,311	15,355
Number of Connecting Companies				10,354	12,300	1,946
Exchange Connections Daily	2,351,420	5,668,986	13,543,468	19,925,194	21,681,471	1,756,277
Toll Connections Daily	51,123	148,528	368,083	517,341	602,539	85,198

* Includes Private Line Stations.

† Decrease.

BELL TELEPHONE SYSTEM IN THE UNITED STATES.

ALL DUPLICATIONS BETWEEN COMPANIES EXCLUDED.

COMBINED BALANCE SHEETS AT FIVE YEAR INTERVALS, 1885–1910.

	Dec. 31, 1885.	Dec. 31, 1890.	Dec. 31, 1895.	Dec. 31, 1900.	Dec. 31, 1905.	Dec. 31, 1910.
ASSETS:						
Contracts and Licenses	$16,732,100	$18,925,700	$20,005,300	$14,794,300	$13,313,400	$2,943,381
Telephone Plant	38,618,600	58,512,400	87,858,500	180,699,800	368,065,300	610,999,964
Supplies, Tools, etc.	348,500	1,021,800	1,810,000	6,464,400	11,069,500	20,987,551
Receivables	1,450,900	1,761,600	3,746,600	13,644,000	26,220,800	26,077,802
Cash	1,792,600	1,183,300	2,484,100	3,223,000	11,005,900	27,548,933
Stocks and Bonds	1,138,800	2,697,400	4,480,500	11,400,400	23,041,200	64,766,089
Total	$60,081,500	$84,102,200	$120,385,000	$230,225,900	$452,716,100	$753,323,720
LIABILITIES:						
Capital Stock	$38,229,200	$43,792,800	$57,462,700	$130,006,900	$238,531,100	$344,645,430
Funded Debts	367,400	6,473,100	10,074,100	44,137,900	93,079,500	224,791,696
Bills Payable	2,618,900	1,323,000	2,000,000	7,000,000	35,000,000	42,566,943
Accounts Payable		3,301,100	6,138,000	13,583,300	22,407,500	21,721,125
Total Outstanding Obligations	$41,215,500	$54,890,000	$75,674,800	$194,728,100	$389,018,100	$633,725,194
Surplus and Reserves	18,866,000	29,212,200	44,710,200	35,497,800	63,698,000	119,598,526
Total	$60,081,500	$84,102,200	$120,385,000	$230,225,900	$452,716,100	$753,323,720

BELL TELEPHONE SYSTEM IN THE UNITED STATES.

ALL DUPLICATIONS BETWEEN COMPANIES EXCLUDED.

COMPARATIVE EARNINGS AT FIVE YEAR INTERVALS, 1885–1910.

	Year 1885.	Year 1890.	Year 1895.	Year 1900.	Year 1905.	Year 1910.
EARNINGS:						
Gross Earnings	$10,033,600	$16,212,100	$24,197,200	$46,385,600	$97,500,100	$165,612,881
Expenses	5,124,300	9,067,600	15,488,400	30,632,400	66,189,400	114,618,473
Net Earnings	$4,909,300	$7,144,500	$8,708,800	$15,753,200	$31,310,700	$50,994,408
Interest	27,700	278,700	655,500	2,389,600	5,836,300	11,556,864
Balance	$4,881,600	$6,865,800	$8,053,300	$13,363,600	$25,474,400	$39,437,544
Dividends	3,107,200	4,101,300	5,066,900	7,893,500	15,817,500	25,160,786
Surplus Earnings	$1,774,400	$2,764,500	$2,986,400	$5,470,100	$9,656,900	$14,276,758

American Telephone and Telegraph Company.

Balance Sheet, December 31, 1910.

ASSETS.

Stocks of Associated Companies	$356,662,338.33	
Bonds of Associated Companies	2,885,000.00	
Capital Advances to Associated Companies	34,165,499.20	$393,712,837.53
Telephones	$11,568,966.04	
Real Estate	2,184,730.44	
Long Distance Telephone Plant	45,948,391.62	59,702,088.10
Cash and Deposits	$13,109,340.32	
Short Term Notes	627,466.52	13,736,806.84
Special Demand Notes		16,970,229.34
Current Accounts Receivable		6,093,415.42
Treasury Bonds		17,300,000.00
		$507,515,377.23

LIABILITIES.

Capital Stock		$263,335,600.00
Four Per Cent. Collateral Trust Bonds, 1929	$78,000,000.00	
Four Per Cent. Convertible Bonds, 1936	38,941,000.00	
Five Per Cent. Coupon Notes, 1907	5,000.00	
Five Per Cent. Coupon Notes, 1910	22,000.00	
Other Notes Payable	13,150,000.00	
Indebtedness to Western Union Telegraph Co. for New York Telephone Co. Stock payable 1912 to 1915	16,500,000.00	146,618,000.00
Dividend Payable January 15	$5,266,712.00	
Interest and Taxes Accrued, but not due	2,163,658.83	
Current Accounts Payable	593,895.44	
Reserve for Unearned Revenue	2,758.99	8,027,025.26
Depreciation Reserve	$37,425,080.08	
Surplus	52,109,671.89	89,534,751.97
		$507,515,377.23

CHARLES G. DuBOIS, *Comptroller.*

American Telephone and Telegraph Company.

Comparative Statement of Earnings and Expenses

For the years 1909 and 1910.

	1909.	1910.
EARNINGS:		
Dividends	$15,949,213.73	$19,205,494.35
Interest and other revenue from Associated Companies	10,661,431.03	10,838,442.84
Telephone Traffic (net)	4,360,104.94	4,893,513.39
Real Estate	95,723.97	95,119.69
Other Sources	1,694,867.76	325,758.44
Total.	$32,761,341.43	$35,358,328.71
EXPENSES	2,570,575.57	3,425,114.22
NET EARNINGS	$30,190,765.86	$31,933,214.49
Deduct Interest	7,095,377.34	5,077,321.33
Balance	$23,095,388.52	$26,855,893.16
Dividends Paid	17,036,275.64	20,776,822.12
Balance	$6,059,112.88	$6,079,071.04
Carried to Reserves	$3,000,000.00	$3,000,000.00
Carried to Surplus	3,059,112.88	3,079,071.04
	$6,059,112.88	$6,079,071.04

CHARLES G. DuBOIS, *Comptroller.*

CLEVELAND
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American Telephone and Telegraph Company.

Annual Earnings and Dividends.

Year.	Net Revenue.	Dividends Paid.	Added to Reserves.	Added to Surplus.
1900	$5,486,058	$4,078,601	$937,258	$470,198
1901	7,398,286	5,050,024	1,377,651	970,611
1902	7,835,272	6,584,404	522,247	728,622
1903	10,564,665	8,619,151	728,140	1,217,374
1904	11,275,702	9,799,117	586,149	890,435
1905	13,034,038	9,866,355	1,743,295	1,424,388
1906	12,970,937	10,195,233	1,773,737	1,001,967
1907	16,269,388	10,943,644	3,500,000	1,825,744
1908	18,121,707	12,459,156	3,000,000	2,662,551
1909	23,095,389	17,036,276	3,000,000	3,059,113
1910	26,855,893	20,776,822	3,000,000	3,079,071

CHARLES G. DuBOIS, *Comptroller.*

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